<u>STATEMENT</u>

by
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Mr. Chairman and members of the Committee, thank you for holding this hearing and for providing me the opportunity to present testimony on current and future farm policy.

My name is Rickey Bearden. I am a Board member of the National Cotton Council and also serve as Chairman of Plains Cotton Growers. I live and farm in Plains, Texas. I have farmed since 1975 and I am the third generation of my family to farm in Yoakum County. My operation consists of a total of 6,000 acres – 2,000 acres irrigated and 4,000 acres dryland. I grow cotton, peanuts, milo, wheat and black-eyed peas. My income is completely dependant on the success of my farm operation.

As you may know, Texas is the largest cotton state, both in terms of acreage and production. In both 2004 and 2005, favorable weather allowed us to average a record 8 million bales each year on just under 6 million acres. And 5 million of the state's 8 million bales were produced here in the Texas High Plains. Unfortunately, the same will not hold true for 2006. Persistent drought conditions have taken their toll on this year's crop. It is estimated that fully one-third of the state's cotton acres will be abandoned, and production will be only half of last year's level. The Senate's previous attempt to meet the needs created by 2005's physical disasters is greatly appreciated but must be expanded to include producers caught in this year's disaster losses as well.

There is no doubt that farming is both difficult and risky. But farming is essential – essential to our economy and essential to our security. We are now faced with a devastating drought at the same time that our energy costs are at record levels. The financial safety net provided by our farm policy has never been more critical and must be preserved.

During my testimony, I will frequently refer to the success of our current farm law. The current program has proven to be a dependable safety net and is not, contrary to popular belief, a guarantee of profit. It is not insignificant that for the past six years no farm organization has called for major modification of current law nor has Congress approved major changes.

The current farm law has and continues to provide a stable and effective national farm policy for our country. The combination of direct and counter-cyclical payments provide an effective means of income support, especially when prices are low, without distorting planting decisions. The primary shortcoming of the 1996 law was the lack of a counter-cyclical payment that triggered when prices are low. As a consequence, farmers were forced to request emergency assistance from Congress year after year. This has been alleviated by the counter-cyclical program provision in current law. The direct payment mechanism helps provide financial stability required by our lenders and suppliers without distorting production decisions.

It is important to maintain a balance between these two mechanisms. Higher direct payments can have unintended impacts. They can provide an incentive for landlords to take their lands out of producers' hands. Higher direct payments can also create unexpected problems with payment limits, which are currently established separately for each program benefit.

It is also important to consider that sudden, significant program changes can have different regional impacts due to historical differences in cropping patterns and yields.

We strongly support continuation of the marketing loan. In fact, it is clearly our top priority under all circumstances. Cotton and rice were the guinea pigs for this innovative policy in 1985 and it has served us well. The marketing loan **responds** to low prices, it does not **cause** low prices. It is effective because it triggers – when necessary – regardless of the cause of low prices and it ensures that U.S. cotton farmers are not left as residual suppliers when they are unable to compete with the treasuries of foreign governments.

It is also especially important that all production remain eligible for the marketing loan so farmers can make informed, orderly marketing decisions. For cotton producers who experience dramatic swings in yield from one year to the next, it is critical that all production be eligible for the marketing loan. In farming, the years of good yields help producers sustain their operations through the bad years. Arbitrary limits undermine the ability to do that.

It is also important to continue to administer the marketing loan in a manner that minimizes forfeitures and allows U.S. commodities to be competitive in domestic and international markets. For example, an ineffective price discovery mechanism or arbitrary limits on loan eligibility signal our competitors that the United States will be competitive on a portion but not all of our production. This is an open invitation for foreign competitors to increase production, even in the absence of, or in spite of, market price signals -- and would return U.S. farmers to being residual suppliers.

The cotton loan structure and world price calculation have served the industry well. There have been minimal forfeitures and robust exports, but some modification may be necessary to respond to the new emphasis on export markets and the termination of Step 2. Simplification of the loan rate schedule and modification of the calculation of a world price should be reviewed as part of any new farm law. We also support elimination of the longstanding prohibition on USDA projecting cotton prices for the purposes of administering the program.

Pima producers support continuation of a loan program with a competitiveness provision to ensure U.S. extra-long staple cotton, also known as Pima cotton, remains competitive in international markets. The balance between the upland and pima programs is important to ensure that acreage is planted in response to market signals and not program benefits.

A sound farm policy is of little value to the cotton industry, including most producers in this area, as well as merchants, cooperatives and processors, if arbitrary, unworkable limitations are placed on benefits. Current law requires USDA to determine if individuals meet certain eligibility requirements and there are statutory limitations on each category of benefits. Unfortunately, these limits have been dictated by public perception, not the requirements of efficient, internationally competitive farming operations. Because there is continuous pressure on USDA to streamline and downsize, it is reasonable to question the cost and efficiency of USDA administering and farmers complying with complicated limitations provisions. Frankly, we believe limitations should be eliminated but at the very least any limitations in future law should not be more restrictive or disruptive than those in current law.

We are deeply disturbed by continual claims that 80 percent of all program benefits go to fewer than 20 percent of the producers and that only the so-called program crops receive direct benefits from farm law. These comments are misleading and serve to divide rather than inspire cooperation. First, it's important to remember that program benefits do not just come as direct payments. Virtually every commodity receives some type of support, whether through direct income payments, price support programs or barriers to import. For example, for some commodities, the U.S. imposes higher tariffs on imports during times when domestic supplies are the most plentiful. In addition, some commodities receive support through government purchases of the product or by mandating use of the product. Favorable tax laws also are used to provide support for certain products but the benefits are not directly attributed to individual farmers. It also should be recognized that our current farm programs provide very real benefits to the livestock sector. Livestock interests benefit because our current farm programs facilitate preservation of a reliable, safe and affordable supply of feedstuffs such as corn, soybean meal and cottonseed.

It is also misleading to compare payments going to the number of farmers. With the natural consolidation of agriculture, it is inevitable that the majority of program benefits will go to the farmers who account for the majority of production. However, it is also true that per-pound or per-bushel support is consistent across producers regardless of size. Plus, payments to producers represent just a fraction of the costs and risks incurred to enable farmers to produce. This is especially true in the current environment of increasing fuel and energy costs. Today's program benefits are an important safety net and not a windfall. Support levels have remained at essentially the same level for the past twenty years while costs have steadily increased. This has pressured margins lower and forced operations to get larger to capitalize on economies of scale. Limiting program benefits unfairly penalizes the commercial-sized family farm operations that are the backbone of our local rural economies. Farm programs are important to our rural communities since much of the support filters through to local machinery and input suppliers. Mr. Chairman, we can not place further financial stress on these operations with unworkable limits. To do so only threatens farming's future and discourages the next generation from entering production agriculture.

Although cotton fiber is our primary product, cottonseed and its products account for 12 percent of the value of the crop at the farm gate. Cottonseed processing facilities provide important markets for our seed, add economic value and create employment. The increasing emphasis on renewable fuels can have varying impact on cottonseed markets. Growth in biodiesel increases demand for vegetable oils, thus increasing the value of cottonseed. Also, the production and ginning of cotton produces cellulosic product that is suitable for the production of renewable fuels. Our members are also closely watching the expansion in ethanol production. Interestingly, as ethanol production increases, one of the by-products – dried distillers' grain – has depressed the value of cottonseed and meal in feed markets. This is clearly an unintended consequence of policies and programs designed to stimulate production of renewable fuels, and also an example of unforeseen impacts due to dramatic policy changes.

We believe conservation programs will continue to be an important component of effective farm policy. These programs should be operated on a voluntary, cost-share basis and are a valuable complement to commodity programs. However, they are not an effective substitute for the safety-net provided by commodity programs. The Conservation Reserve Program, Conservation Security Program and Environmental Quality Incentive Programs are proven, valuable ways to promote sound, sustainable practices through voluntary, cost-share, incentive based programs.

Access to an affordable crop insurance program also is an important tool for most farmers. However, given the continued inequities of coverage and service in different regions and for different crops it is probably time for another thorough evaluation of the cost and benefits associated with the multi-peril crop insurance program and to investigate if the support currently provided through multi-peril crop insurance and *ad hoc* disaster programs to assist growers could be more effectively delivered in other ways. This type of review is especially important as the concept of a whole-farm, revenue insurance program is gaining attention as a way to devise a WTO-consistent farm program. While we welcome the discussion, I cannot tell you that a majority of cotton farmers will embrace crop insurance as a major component of future farm policy without a great deal more information. In fact, there are those who would support establishment of a permanent disaster assistance program in lieu of funding crop insurance programs.

Continuation of an adequately funded export promotion program, including the Market Access Program (MAP) and Foreign Market Development (FMD) Program, are important in an export dependant agricultural economy. It also is valuable to maintain a WTO-compliant export credit guarantee program. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets – but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO-compliant.

The U.S. cotton industry understands the value and benefits of effective promotion. In addition to being original and continuous participants in FMD and MAP, growers finance a very successful promotion program through a self-assessment (check-off) program. In large part, and as a result of effective promotion, the average U.S. consumer purchases 38 pounds of cotton textile and apparel products each year. In the rest of the world, consumption is less than six pounds per person per year. Promotion works! It is important that the authority for farmers to operate self-help, self-financed promotion programs be continued.

Although the U.S. retail market for textiles and apparel has been steadily growing, the U.S. textile industry has not enjoyed the same growth. In fact, our textile industry has gone the opposite direction, with U.S. mill use being cut in half over the past 10 years. Cotton farmers are deeply concerned about the loss of our manufacturing customer base, which is due to continually increasing imports of cotton textiles. We will continue to work with U.S. textile manufacturers to ensure that there are policies in place that promote and reward fair competition. We also are committed to continue supplying the top quality fiber necessary for U.S. manufacturers to produce internationally competitive textile and apparel products. The loss of the Step 2 program had an adverse impact on our domestic manufacturers given their fragile financial conditions. The remaining manufacturers have indicated strong interest in making revisions to our Step 3 import policy and in developing a possible WTO compliant alternative to Step 2.

The rapid decline in raw cotton consumption by domestic mills has created challenges for all cotton farmers who must identify new export markets to replace domestic consumption lost to imported products. The market has placed new and added pressure on our infrastructure including surface transportation and port facilities. We are working with the industry and with USDA and Congress as appropriate to meet those challenges. In addition, the dependence on export markets adds greater volatility to U.S. cotton demand and increases the influence of international forces on the prices we receive. As producers face increased risk and uncertainty, it places an even importance on maintaining an solid farm program.

Mr. Chairman, we understand you and your colleagues will face significant challenges in designing and maintaining effective farm policy in the future. In addition to the need to balance the diverse interests of different regions and commodities, we know you have to compete for financial resources in times of a significant budget deficit. We also realize you will have to consider compliance with international agreements as you craft future farm policy.

Frankly, most cotton farmers and a majority of the industry would be satisfied with an extension of current law. An extension provides a level of certainty to growers and those providing financing to the growers. It also puts the U.S. in the strongest negotiating position for when the WTO negotiations resume. We also know, however, that maintaining existing policy will face hurdles, both domestically and internationally.

Regarding the Doha negotiations, I commend you and our negotiators for continuing to demand an ambitious result in the Doha negotiations and refusing to allow unwarranted pressure or deadlines to undermine the U.S. position. It may take longer than anticipated to bring the Doha Round to a successful conclusion, but the determination of the U.S. negotiating team is a positive sign for U.S. agriculture and for the world's agricultural producers.

We also appreciate your steadfast support for **cotton** throughout the WTO negotiations and your opposition to inequitable treatment for cotton. We remain concerned about the continued efforts by certain countries calling for additional concessions for cotton. It is important that we continue to point out that the accusations leveled against the U.S. cotton program are unfounded. Numerous studies have shown that U.S. farm programs have only minimal impacts on world cotton prices. U.S. cotton area and production have not trended higher, and the U.S. share of the world market remains stable. While U.S. retail demand for cotton has grown, the same can not be said for cotton demand in other parts of the world. In addition, rapid increases in world synthetic fiber production continue to pressure cotton prices.

Efforts to single out cotton were originally focused on upland cotton, which is more comparable to the varieties of cotton grown in West Africa. However, the draft modalities developed in June by WTO staff defined cotton to include both upland and extra long staple varieties. It is important to note that the United States maintains different programs for upland cotton and extra long staple cotton, and that West African cotton does not compete with extra long staple varieties.

Mr. Chairman, you and other members of this Committee have clearly stated that your support for the ambitious U.S. proposal made in October 2005 would be realized only if our trading partners match the ambition of the United States. A Doha Agreement that cuts U.S. amber box support by 60%, targets U.S. cotton for inequitable cuts, provides little or no real market access gains for agriculture in general, and exempts China, the biggest cotton user in the world, from liberalizing its cotton quota system will not find a warm reception here. These inequitable demands by our international partners will not work for U.S. agriculture. Resuming the negotiations would be a futile exercise if other countries are not prepared to match the U.S. level of ambition.

Finally, we agree with the assessment that no deal is better than a bad deal. We would be far better off constructing a new farm bill under current WTO rules than we would accepting an agreement with rigid, inflexible, poorly defined limits that contains no real gains in market access. Mr. Chairman, we would rather have a $19.1 billion amber box ceiling and current rules, than a $7.6 billion ceiling and worse rules. We also appreciate the fact that the next farm bill will be written by this committee along with the House agriculture committee.

I am pleased to assure you and your colleagues that the cotton industry is prepared to continue to work with all interests to develop and support continuation of a balanced and effective policy for all of U.S. agriculture.

Again, thank you for the opportunity to testify today. I would be pleased to respond to your questions at the appropriate time.